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DEPARTMENT FOR EUR/CE AND EB; TREASURY FOR DAS ERIC MEYER;
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SUBJECT: THE UPSIDE OF MELTDOWN: POLITICAL OPPORTUNITY AND
ECONOMIC HAZARD

REF: BUDAPEST ECON UPDATE OCTOBER 15

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) As Hungary's markets continue their rough ride (septel), Prime Minister Gyurcsany has seized on this weekend's "National Summit Meeting" as a means to address both Hungary's immediate economic challenges as well as his own long list of political problems. Designed to bring together Hungary's elected leaders and selected experts, the summit has provided the government with badly-needed cover to withdraw his troubled tax plan, budget proposal, and privatization initiative.

¶2. (C) Although the government has played down the prospect of reaching a national accord on economic policy, the summit may also provide a venue for the government to score rhetorical points on long-standing (and long-dormant) issues ranging from corruption to administrative reform. As one contact quipped, this is another example of the government "expanding a problem it cannot solve."

COLD COMFORT FROM ICELAND, COLD SHOULDER FROM BRUSSELS?

¶3. (C) This domestic activism has been mirrored in a wave of proposals for EU action. In addition to his "12-step program" for domestic consumption (ref a), the PM also sought EU support in Brussels October 15. Judging from his call to liberalize the European Central Bank's ability to intervene beyond the Euro Zone and to lift the 3 percent deficit target in Hungary's Convergence Program, his intent is to loosen the fiscal constraints Brussels has placed on Budapest.

¶4. (C) According to brief references in the media, the PM's proposals were "not refused." Based on Ambassador Foley's conversation with National Security Advisor Karoly Banai, we know that the PM returned to Budapest ahead of schedule given the sharp decline in the forint and the record drop in the stock market (septel).

¶5. (C) We also suspect that the quest for external assistance is a two-edged sword. Although news of the IMF's willingness to provide assistance to Hungary helped calm the markets early in the week, the markets dropped again shortly thereafter as critics condemned "the last act of a desperate debtor" and many questioned whether Hungary "could go the way of Iceland."

ECONOMICAL WITH THE TRUTH

¶6. (C) Critics see these maneuvers as vintage Gyurcsany: a big (if not to say exaggerated) idea which capitalizes on events to retreat from his mistakes, to readjust his priorities, and to redistribute responsibility. Political commentator Laszlo Keri told select Ambassadors October 14 that the crisis had provided Gyurcsany with a deus ex

machine, allowing him to solidify his position within the MSzP, cast himself as the defender of the common man, and call for an end to discussion of early elections.

17. (C) The Prime Minister is blessed with a short memory and quick reflexes. As FIDESZ Party President Viktor Orban tartly observes, Gyurcsany has moved from confident predictions of "no impact" from the global crisis to convening the summit in less than one week. Along the way, he has placed blame not on the failure to undertake further reforms but rather on unnamed "attackers" intent on "destabilizing Hungary's economy."

18. (C) Comment: Keri believes that his quick reaction has allowed Gyurcsany "to win this round," and even SzDSz wise man Peter Tolgyessey - no fan of Gyurcsany's - has grudgingly credited the PM with "deft bravado." But domestic and international confidence have been shaken, and the government could very easily contribute to the crisis it is trying to calm. The latest opinion polling reflects a public mood of "crisis but not yet of panic." Keri cautions that the crisis may have provided the PM with his last, best chance to reverse his political fortunes. As Defense Minister Szekeres notes privately, however, to do so Gyurcsany will need to do more than substitute short-term crisis management for longer-term reforms. End Comment.
Foley